

Transition of Assets into LPP

Background

- LPP is already managing £11bn of assets with full delegation. The next phase in development is to transfer assets currently held on the founding investors' own balance sheets ('Balance Sheet assets') into Investment Pooling Vehicles ('IPV assets').
- The transition of assets into the new vehicles will incur costs, such as brokerage commissions, market impact, tax and legal fees.
- These costs are one-off costs. When evaluating the merits of transition, the costs must be weighed against the benefits which include:
 - Lower costs via greater purchasing power and reduced duplication of fixed costs (e.g. legal fees, monitoring fees, brokerage fees);
 - Increased governance rights due to aggregated rights and/or larger investment size securing preferential terms;
 - Lower fees for professional services and external investment management.
- Other factors that must be considered are:
 - Valuation: particularly in relation to illiquid private assets;
 - Legal rights: certain assets require the consent of fellow shareholders and/or the asset manager to transfer ownership – this is not always automatic and in some circumstances will be withheld.
- As a generalisation, the more consolidated the ownership into collective investment vehicles, the greater the long term benefits will be. Duplication is minimised, maximum negotiating power is achieved, and implementation is at its most simple.
- LPP has a fiduciary duty to balance these costs and benefits and to look after the interests of each investor.

Principles to be applied

When managing the transition process, LPP will consider the merits of transition and our fiduciary obligation to ensure the benefits of transition outweigh the costs/disadvantages. In exercising this fiduciary duty, LPP will follow the following broad principles:

- Assets will not be transitioned where the costs of doing so are excessive relative to the benefits. As a generalisation, it should be expected that any costs should be recoverable via improved return or reduced ongoing fee within a three-year period.
- Assets will only be transitioned once a suitable future ownership structure has been identified and confirmed as fit for purpose.
- Any assets being transitioned will be valued at fair market value – thus preventing any inequitable transfer of value between parties. Where publicly-traded prices are not available, valuations shall be subject to LPP's Fair Valuation Policy, which has been scrutinised by the Regulator and may include independent expert assurance where necessary.

- Illiquid/private assets approaching their natural maturity will most likely be excluded from transition. As these assets mature and cash is returned, the cash shall be re-invested via a pooling vehicle.

The above considerations are relevant to existing investments. For new investments, pooled investing is being pursued with immediate effect. For each asset class, once an appropriate pooling vehicle has been created, all new investments shall be made via this vehicle. In the interim, where consistent with their objectives and guidelines set out in the Advisory and Management Agreement, any new investment shall be considered for both LCPF and LPFA.

Transition timing

Please see the planned timetable of transitions for existing investors (LCPF and LPFA) as at June 2016 below.

Progress Reporting

Progress and variation to the timetable below will be reported to shareholders and investors via the established LPP I and LPP Board structures, as well as via quarterly reporting packs produced for each investor.

Planned transition timetable for LCPF and LPFA as at June 2016

Asset Classes	LPFA Assets		LCPF Assets		Combined - LPPI		Transition Completed by	Legal Structure	Transition Considerations
	IPV Assets	Balance Sheet	IPV Assets	Balance Sheet	IPV Assets	Balance Sheet			
Public Equity *	1,608.8	631.3	2,512.9	0.0	4,121.7	631.3	Sep-16	ACS	LPFA: £0.8m (0.05%) LCPF: £1.7m (0.07%)
Private Equity	342.0	32.8	78.8	248.3	420.8	281.1	Sep-16	Limited Partnership	Change of Ownership Legal Fees
Infrastructure	223.2	35.5	213.4	149.4	436.6	184.9	Dec-16/Mar-17	Limited Partnership	Change of Ownership Legal Fees
Property	188.8	0.0	599.6	29.8	788.4	29.8	Dec-16/Mar-17	ACS	Change of Ownership Legal Fees Stamp Duty Charges
Total Return	698.0	0.0	0.0	236.6	698.0	236.6	Sep-16/Dec-16	ACS	Change of Ownership Legal Fees
Credit	347.3	0.0	1,252.3	0.0	1,599.5	0.0	Sep-16/Dec-16	Limited Partnership	Change of Ownership Legal Fees
Fixed Income	0.0	0.0	171.8	0.0	171.8	0.0	Sep-16/Dec-16	ACS	Change of Ownership Legal Fees
Cash	452.1	0.0	209.0	0.0	661.1	0.0	Sep-16	ACS	

*Balance Sheet assets in public equity relate solely to synthetic equity held by LPFA as part of LDI hedging programme.

Base case - Lancashire cost is higher due to EM exposure that is being removed as well as the relatively larger changes in the portfolio. Does not include market impact costs.

IPV = Investment pooling Vehicle

Legal fees are estimated at £0.5m per asset class.